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SIPDIS

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SUBJECT: DUTCH DELEGATION TO MADRID BUSINESS CONFERENCE AND RESULTS OF FACT-FINDING MISSION

REF: A. THE HAGUE 02142

1B. STATE 287995

11. (SBU) Summary. The following Dutch companies will attend the Iraq business forum in Madrid: Shell, Philips, ABN Amro, Nedeco, and Friesland Coberco. Dutch businesses, with the financial and moral support of the government, are positioning themselves for entree into Iraq "as soon as the security situation improves." Industry and government have organized themselves under an umbrella group called "Task Force Iraq" which has staged two conferences in the Netherlands and launched a fact-finding mission to the region, visiting Turkey, Jordan, Kuwait, and Dubai. Future plans include a proper trade mission to Baghdad, the establishment of Dutch-Iraqi Commercial Center in Baghdad, and a third conference in Jordan in January 2004. A report from the fact-finding mission finds that it is too early to invest in Iraq because of the security situation, lack of political continuity, and lack of finance. The report also criticizes the bidding process on U.S.-government funded contracts, saying it lacks transparency and is rigged in favor of U.S. companies. Dutch industry is encouraging the MFA to fund private sector support programs in Iraq. The Ministry of Economic Affairs' EUR 3 million "Iraq Facility" has been put on indefinite hold. Dutch business has made it clear it wants to see the Foreign Ministry make pledges to Iraq reconstruction. End Summary.

Task Force Iraq

12. (U) The Dutch Ministry of Economic Affairs has informed post that at the October 23 Madrid Conference on the Role of the Private Sector in Iraq, Dutch industry will be represented by Shell (energy), Philips (electronics and medical), ABN Amro (financial services), Nedeco (engineering/construction), and Friesland Coberco (dairy). Each company will report back to its respective sector after the conference. These companies have been integrally involved in "Task Force Iraq," a joint venture by the Ministry of Economic Affairs, the Chamber of Commerce, and the Dutch Trade Promotion Council (NCH) On September 17, Task Force Iraq held its second symposium for businesses interested in Iraq. There were 250 attendees on hand at the half-day event, although the Task Force claims a total of 700 members. A significant portion of the members are Iraqis residing in the Netherlands. This is the second event they have held -- the first was in Rotterdam in May. The Dutch Trade Promotion Council will co-host a conference on "Rebuilding Iraq" in Amman January 10-13 along with American partner The Kallman Group, L.L.C. The Task Force is asking Dutch businesses to sign up as sponsors of a future Dutch-Iraqi Commercial Center in Baghdad which will provide business consultation services to prospective Dutch investors.

What Business Requests of the Government

13. (SBU) The Ministry of Economic Affairs' had set aside EUR 3 million for the creation of an "Iraq Facility" dedicated to funding opportunities for Dutch companies to get a foothold in Iraq reconstruction (ref A). This money is designed to fund needs assessments and grant awards to Dutch companies in specific sectors. However, the initiative has been placed on hold until further notice due to security conditions. The business sector has asked for the Facility to be activated as soon as possible and for the MEA to proceed with a trade mission as soon as the security situation allows it. The business sector has also expressed frustration at the MFA's reluctance to make an aid pledge to Iraq. (Note: new indications are that the Dutch may make a small pledge at the October 23 conference. End Note.) The Task Force recommends the MFA begin a bilateral "thematic" program in Iraq focused on private sector development and that it further support opportunities for Dutch NGOs in Iraq. In addition the Task Force requests stronger representation in Iraq including a commercial support office, a Dutch delegate in the CPA (which has so far been resisted by the MFA), and a fully-staffed embassy.

Fact-Finding Mission to the Region

14. (U) In September, a consortium of Dutch government and industry went on a fact-finding mission to Turkey, Jordan, Kuwait and Dubai to seek out partners to sow future business seeds in Iraq and to get an overview of the present and future challenges. The 25-person trip was led by Ministry of Economic Affairs Director General for Foreign Economic Affairs Dirk Bruinsma and sponsored by the Dutch Trade Promotion Council (NCH). Bruinsma broke away from the group at one stage, heading briefly into Baghdad to meet with UN officials, Ambassador Bremer, and entrepreneurs.

15. (SBU) The private sector-led Dutch Trade Promotion Council wrote a report at the end of the trip summarizing their findings. The report states that there are numerous short-term business opportunities available, linked to Iraq's desperate need to import most consumables at this time, but it is still too early to invest for the long-term. The basic conditions that are necessary to business are not in place yet. These are security, trustworthy partners, continuity of government leadership, financing, and legal protections. The report criticizes the degree of transparency in the subcontracting process for U.S.-funded projects. In addition, it notes that there is criticism outside the U.S. that non-U.S. companies have little chance in the bidding process. "One can hope that the process will be improved and that funding from the Development Fund for Iraq will play a larger role." Investing in any newly-privatized companies would be risky if there is a lack of legal protection. Even if privatized, industries will remain heavily regulated and subsidized. Business-to-business contacts offer the best potential, and Dutch companies are looked at favorably by Iraqis. It is important to work with local Iraqis but hard to find trustworthy partners; there is an abundance of middlemen. The local business sector is aware of these handicaps and is beginning to organize itself in response. Iraqi Business Councils outside Iraq offer some hope as does the CPA's "Business Support Center." It is important that in a future Iraq, a handful of families is not permitted to control the economic means of the country.

16. (SBU) The report identifies three major obstacles: political risk, security risk, and a lack of finance.

-- Political Risk -- Iraqi businessmen in and outside of Iraq think it is too early for large investments due to political risk. It is essential to have legitimate government but the interim authority does not have this legitimacy.

-- Security Risk -- According to people the mission encountered, the explosive security situation is linked to the United States' failure to properly prepare for the peace. The combination of 140,000 released prisoners and the disbanding of the army and police was a fatal combination. The thousands of newly unemployed creates an ideal reservoir for terrorist and criminal organizations. The CPA is, however, working hard to make the streets more secure. Developments over the next few months will be crucial. Few Dutch companies are willing to take these risks. The Foreign Ministry maintains a travel advisory and the Dutch embassy is down to two people as a result of the UN HQ bombing.

-- Lack of Finance -- The country faces a lack of international donor support and crippling debt levels. There is a need for medium-term finance. While the CPA is working on new investment-friendly laws, it remains to be seen whether a future Iraqi government will stay on course or turn back to the old, restrictive system.

17. (SBU) All the countries the mission visited presented themselves as the "springboard" to Iraq. The report calls Turkey the gateway to Northern Iraq and says Turks are keen to partner with Dutch firms. Turkish construction companies are already active in Iraq and seem willing to take the associated risks. In Jordan, the mission was impressed by the large number of Iraqis with strong ties to businesses in Iraq. Jordan is described as having vibrant commercial links with Baghdad and the advantage of a free trade agreement with the U.S. Kuwait has the advantage of proximity to Basra and strong companies, but Kuwaitis do not have a good reputation in Iraq, according to the trade mission. Dubai is also an excellent platform from which to do business in Iraq, but is rather far. All four countries have developed free trade zones oriented toward trade with Iraq. The business sectors in each country see the regime change in Baghdad as positive for business opportunities.

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